

Neutron Asia Absolute Return Fund

Monthly Newsletter (October 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK\$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund ("NFA")	1,347.1225	↑ 2.62%	↑ 22.49%	↑ 35.49%

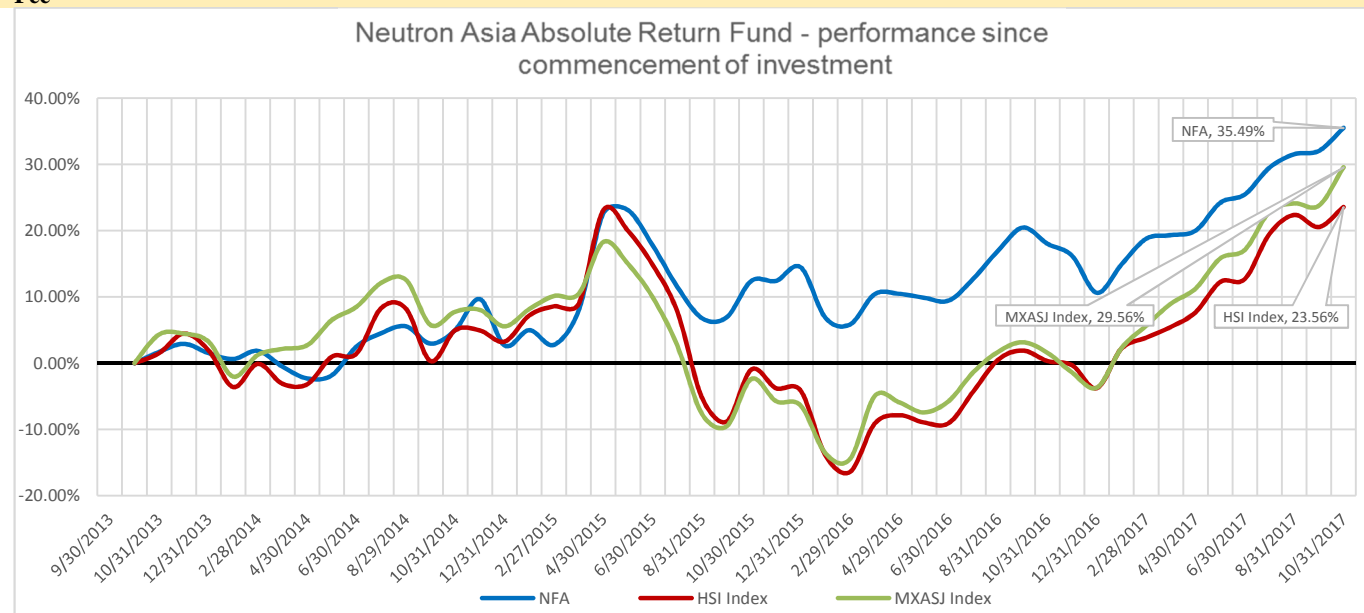
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23	+1.55	+0.39	+2.62			+22.49
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	-3.37
2015	+2.26	-2.12	+5.02	+13.59	+0.41	-4.31	-5.33	-4.22	+0.12	+5.14	+0.00	+1.83	+11.49
2014	-0.88	+1.23	-2.34	-1.79	+0.49	+4.41	+1.98	+0.98	-2.46	+2.00	+4.43	-6.37	+1.14
2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08	+1.68	+1.24	-1.37	+31.39* +1.52
2012	+2.45	+6.61	-4.36	-1.41	-2.89	+1.28	+3.28	+1.30	+0.63	+3.89	+2.11	+4.24	+16.61
2011	-3.10	-4.20	+5.57	+0.28	-0.87	-1.56	-1.53	+3.11	+1.29	-3.73	-0.27	-1.10	-6.11
2010	-0.72	-0.29	+1.53	+4.44	-2.93	-0.53	+1.81	+3.26	+11.89	+4.23	+0.96	+8.39	+29.82
2009	+1.12	+2.88	+3.77	+1.19	+7.92	+1.26	+1.89	-3.40	+0.86	+0.07	+4.22	+6.91	+28.36

* Hall Park Capital, the Strategy was previously expressed through Hall Park Capital from January 2009 to September 2013. This was run as a smaller managed account gross of fees.

Fund Information

Investment Objective	The investment objective of Neutron Asia Absolute Return Fund is to focus on but not limited to Asia ex Japan and aims to generate positive returns in all market conditions.		
Investment Style	It is a concentrated portfolio of stock picks employing a fundamental value approach seeking to take advantage of trading opportunities from both the long and the short side.		
Investment Launch Date	2 October 2013	Domicile	Cayman Islands
Fund Size	HK\$477 million Approx. US\$62 million	Dealing	Monthly
Administrator & Custodian	DBS Bank Ltd., Hong Kong Branch	Auditor	Ernst & Young Limited
Directors	Vincent Leung Patrick Harrigan (Independent) Sean Flynn (Independent)	Portfolio Manager	Jonathan Garrick jonathan@bricneutron.com
Management Fee	1.5% p.a.	Performance Fee	15% of profits above hurdle



For further information, please visit Bloomberg ticker: BNNEUTA:KY or website <http://neutronasiaabsolute.bricneutron.com/>



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In October, the fund gained +2.62% net of fees. The NAV is 1347.1225 as of October 31st. As a consequence, the fund has gained +22.49% year to date.

For the portfolio, October was a steadier month and our trading remained relatively subdued. Our portfolio rotation saw us initiate on two new long positions, add to a handful of existing names and sell out of two holdings. As a result, we marginally raised both the gross and net exposure to push towards the highest levels of the year. With regards performance attribution, eleven long positions made a positive contribution, whilst nine detracted. Five holdings made solid double-digit gains, whilst seven of the nine detractors softened less than 3% over the month. On the plus side, the main positive contribution came from our domestic China plays. There was a mixed performance in our internet, industrial and consumer names, however, the net result was a notable skewed gain. On the downside, the main detractors were a consumer company and a pullback in a high flying industrial name. On the short side, our single stock short position provided a slight negative, whilst our index futures trades provided a negligible contribution to performance.

One of the main positive contributors this month was Ping An Insurance (2318 HK, mkt cap US\$186bn) which is a prominent provider of a variety of insurance services in China. Recent results showed the traditional businesses are seeing strong growth and beating market expectations on most metrics. With 1.2 million life agents and 377 million internet users the company's coverage is extensive. What is less well known is its ambitious strategy to become a world-leading, financial services provider. What is even more impressive is the extent of innovation and level of fintech implementation in their business segments already. They are creating ecosystems for financial services, healthcare, autos and real estate using big data and online and mobile capabilities to deliver a superior service. For example, Ping An's Healthcare 'City One Account' platform covers nearly 60% of cities and 500 million people. The 'Good Doctor' function now processes 420,000 doctor's appointments a day. In their property and casualty insurance claims department, 90% of claims are processed without human involvement. These initiatives appear to be underappreciated. The analysts employ a sum of the parts valuation method to determine their target prices. The vast majority is derived from the embedded value and value of new business of the life insurance business. However, the fintech and internet finance businesses are given a tiny portion, under 2% in most cases, using the conservative price to book metric. After adding the sum of the parts, the whole business is given a holding company discount of between 10-20% to reach the target price. Where we have a variant perception is that we see the fintech and internet finance business are vastly undervalued given the scale of the company's footprint and the attractive ecosystems being developed. On November 20th the company is holding corporate day and interestingly, has invited both insurance and internet analysts to attend. It is likely there will be further explanation and breakdown of the ecosystems illustrating the efficient ability to monetize and cross-sell from the new, impressive IR team. For us, the risk on the value of the fintech initiatives is substantially on the upside with plenty of scope to run. We added to our position in October.

Undoubtedly, the main event in October was the 19th National Congress of the Chinese Communist Party. President Xi was seen by all to further extend and consolidate his power in the leadership reshuffle. For the economy, Xi Jinping put forward his vision of a moderately prosperous society that will be a fully developed nation by 2049. For investors, this political stability and his deliberate push for financial and corporate reforms including the popular anti-corruption drive is a clear positive. We expect these themes to be ongoing and intensify.

By the end of the month, the third quarter reporting season had already begun. One early notable report came from the American construction equipment manufacturer, Caterpillar (CAT US). CAT significantly beat earnings estimates and a boosted their outlook. For us, the interesting focal point came from comments by the CFO who stated 'Higher sales volume and our team's focus on cost discipline resulted in improved profit margins across our three primary segments... China continues to be a bright spot and a surprise to the upside.' With global investors still notably underweight China, this should provide credible testimony of the positive corporate environment in China and accelerate reallocation decisions. Furthermore, the Trump visit to China early in November will place the spotlight on new trade deals and not a confrontational trade war as some had feared. China will be more open for business, albeit slightly. Looking ahead to the reporting season we expect further evidence of strong corporate operational performance with a macro tailwind. We still view the valuations as relatively attractive and we believe the portfolio is well positioned to benefit. We are confident in our selective strategy with a focus on structural growth and value with catalyst.



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